IMPLEMENTATION RECOMMENDATIONS FOR HAWAII GASOLINE PRICE CAPS

Presented to the Hawaii State Legislature
April 19, 2005

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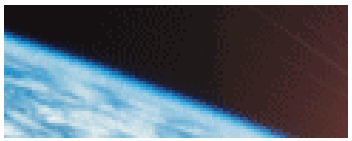
Markets and Services Areas


Energy


Environment


Homeland Security


Community Development


Transportation

- Economic, Policy, & Regulatory Analysis
- Market Assessment
- Regulatory Support
- Scientific & Risk Assessment
- Program Management
- Information Technology
- Strategic Communications
- Human Capital Management
- Training

Energy Services

- Fuels assessments and Infrastructure analysis
- Energy-efficiency program design and management
- Asset valuation and due diligence
- Strategy (market, asset, environment, regulatory)
- Greenhouse Gas Inventory and Management

Current Energy/Fuels Energy Clients

- Hawaii Public Utilities Commission
- California Energy Commission
- New York State Energy Research and Development Authority
- U.S. Environmental Protection Agency
- U.S. Minerals Management Services

Gasoline Price Caps: Background

- HRS 486H-13 goes into effect September 1, 2005
- PUC responsible to carry out duties of HRS 486H and implement
- PUC requested to review methodology, assure competitive market-based Gas Caps and determine zone price differences
- ICF Consulting retained to assist PUC with analysis

Gasoline Price Caps: Forward Plan

- Legislative Briefings on April 19th, 2005 on ICF analysis and report
- Meeting with Parties to Docket 05-0002 to address technical questions and issues with the report on May 19th
- Parties submit position statements to PUC by July 1
- Parties submit rebuttal position statements to PUC by July 11
- Gas Caps take effect September 1, 2005

Gasoline Price Cap Review: Presentation Agenda

- Review of HRS 486H-13 factors
- Summary Conclusions
- Evaluation of factors
  - Baseline Price
  - Location Adjustment
  - Marketing Margin
  - Premium & Midgrade Margins
  - Zone Adjustments
- Impact Analysis
- Compliance System

REVIEW OF HRS 486H-13 FACTORS

HRS 486H-13 FACTORS:

- Baseline Price: Average of OPIS NYH, LA, and USGC (US Gulf Coast) weekly Conventional Gasoline Price
- Location Adjustment: 4 CPG
- Marketing Margin: 18 CPG
- Premium Grade Margin: 9 CPG
- Midgrade Margin: 5 CPG
- Zone Adjustments: TBD

SUMMARY CONCLUSIONS

Summary Conclusions: Gas Cap Methodology

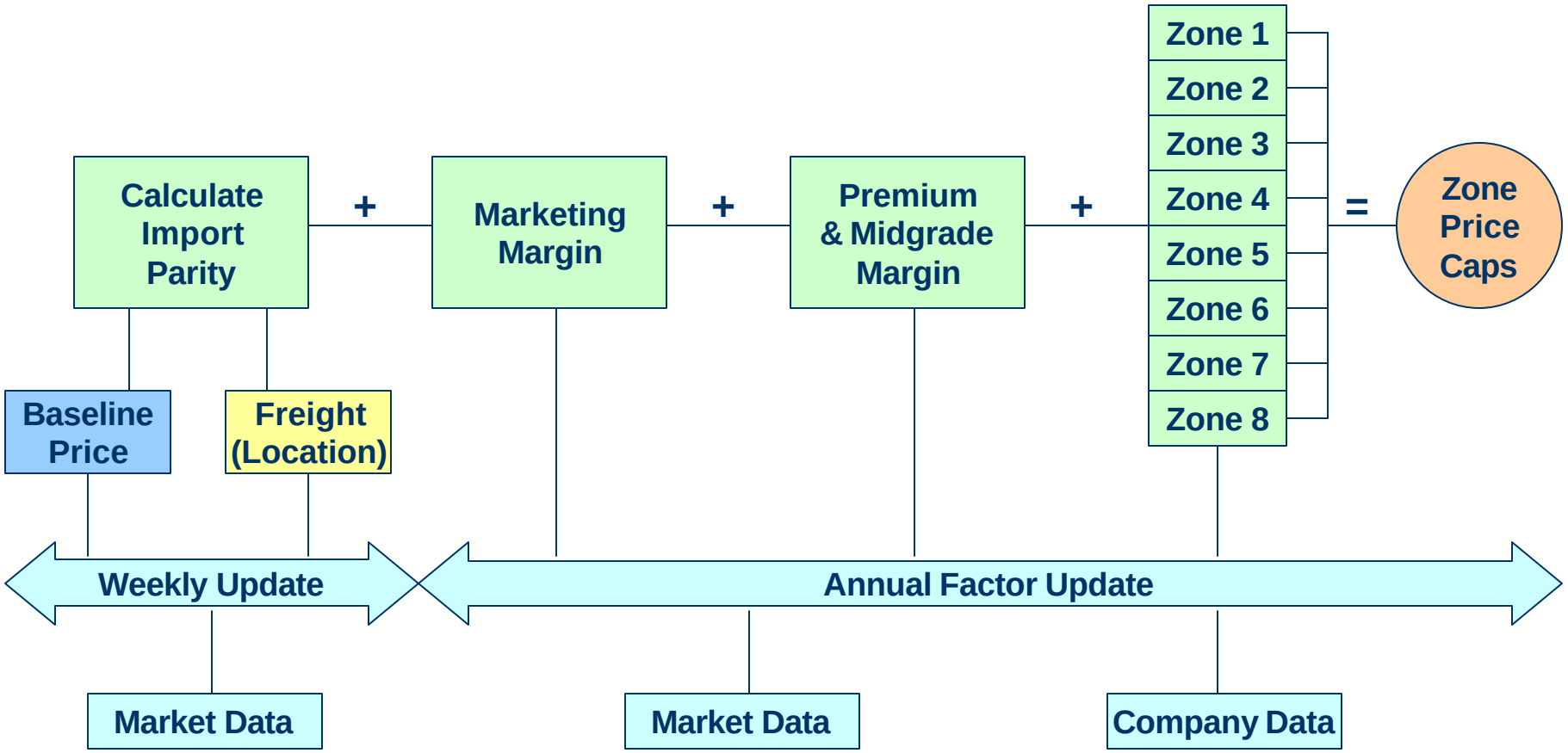
1. Gas Cap baseline price should be modified to reflect more competitive alternatives for Hawaii
2. Location adjustment factor (Freight) is too low, and needs to adjust with market conditions
3. Zone factors should reflect average wholesale marketer costs for transport and terminaling
4. Marketing Margin Factor should be modified to reflect
   - Mainland marketing margin benchmark
   - Multiple types of Wholesale gasoline transactions

Summary Conclusions: Gas Cap Methodology

Wholesale Marketing Transaction Types

- Bulk Sales: Larger than truckload sales (barge, pipeline, etc)
- Rack Sales:
  - Branded: Supplier sells from a terminal rack into a distributor or jobber truck. Customer resells gasoline under the Supplier's brand name
  - Unbranded: Supplier sells from a terminal rack into a distributor or jobber truck. Customer resells gasoline under their own name, or to another customer marketing under their own brand
- DTW (Dealer Tankwagon Sales): Delivered sales from a Supplier into a service station dealer. Can be to a Branded dealer or an Unbranded dealer.

Gas Cap Calculation Flow Chart



EVALUATION OF FACTORS: ANALYSIS PROCESS

- Determine and assess alternative market based sources & pricing
- Determine market based location differential
- Identify marketing margins in competitive mainland markets by class of trade
- Determine Premium and Midgrade margins in competitive mainland markets
- Identify Hawaii-basis Zone factor adjustments (barge costs, terminaling & trucking)

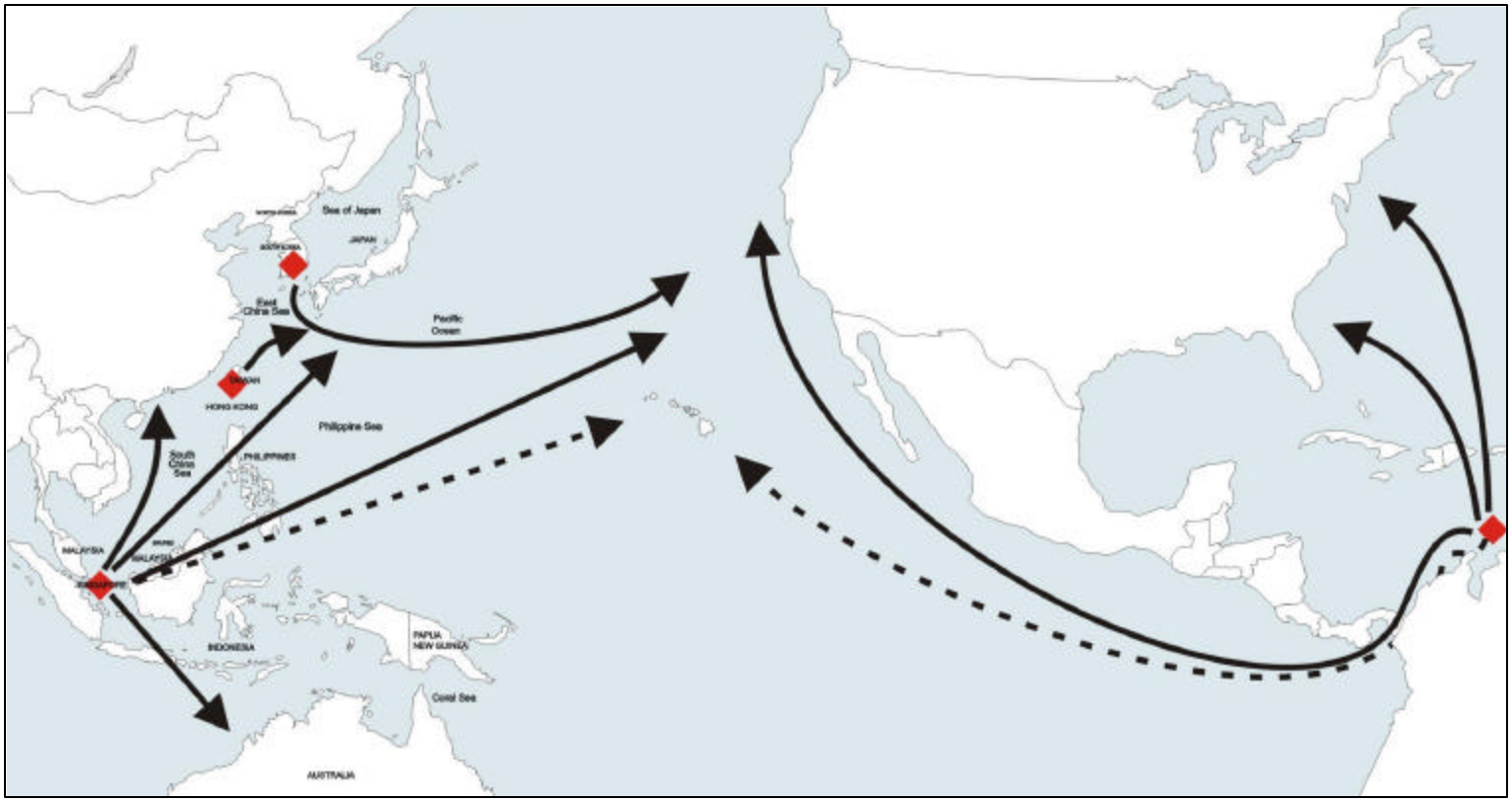
EVALUATION OF FACTORS:

BASELINE PRICE
(486H-13(c))

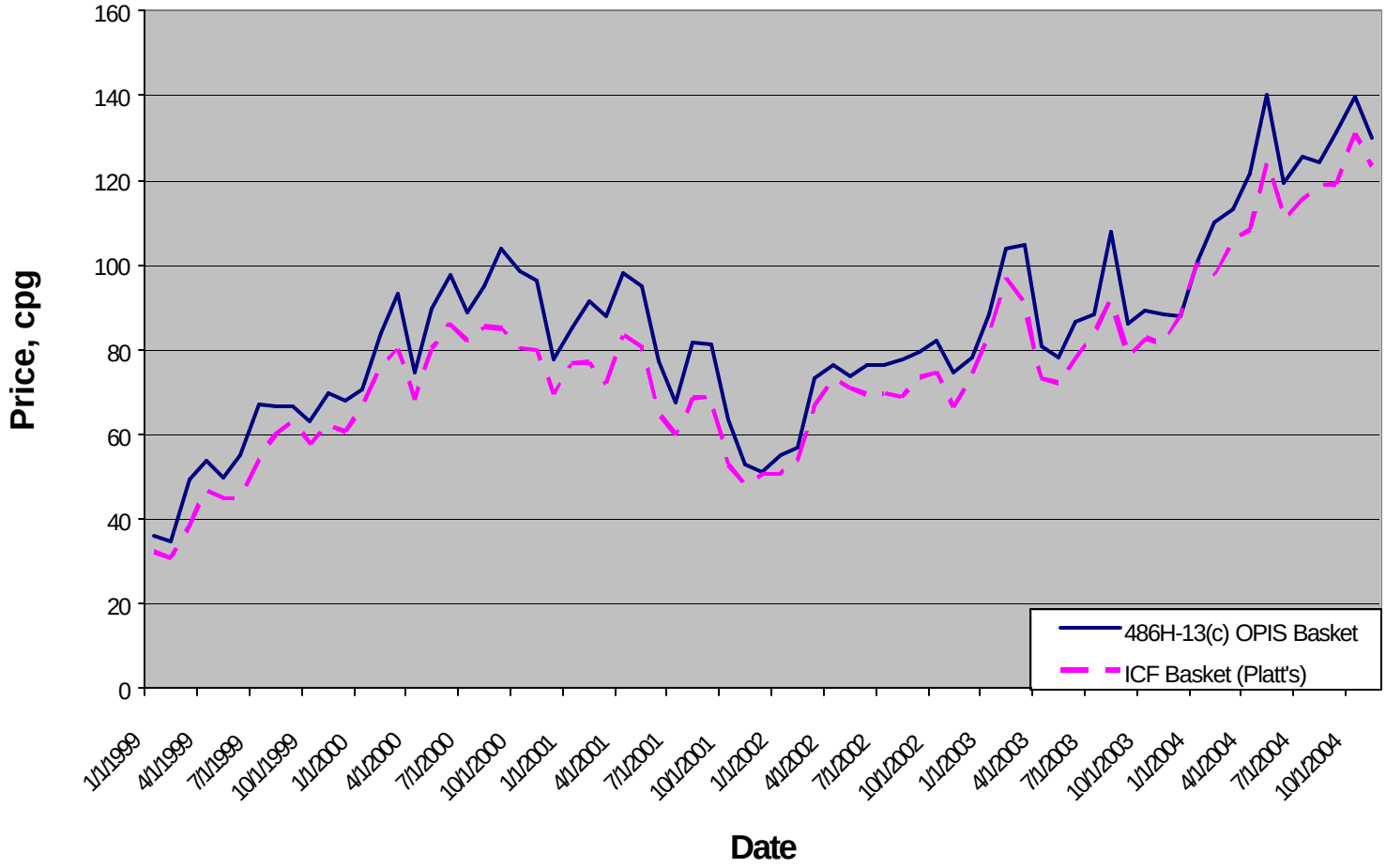
Hawaii Baseline Gasoline Price

- HRS 486-13 (c) Baseline Terms:
  - Average:
    - Los Angeles OPIS Spot Market
    - U.S. Gulf Coast OPIS Spot Market
    - New York Harbor OPIS Spot Market
  - Considerations:
    - U.S. mainland is a long-term import sink
    - Logistics expensive and impractical
      - US Flag (Jones Act) vessels
    - More likely import sources Far East & Caribbean

Hawaii Alternative Gasoline Supply Sources



Baseline Price Comparison



Baseline Source Unleaded Price Data, cpg

	486H-13C (1)	ICF BASKET (2)	SINGAPORE	CARIBBEAN
1999	56.7	49.7	48.1	51.4
2000	89.2	78.3	74.0	82.7
2001	77.8	67.0	61.0	73.0
2002	73.4	67.7	63.9	71.5
2003	90.9	83.5	80.2	86.7
2004	123.3	114.1	110.4	117.7
AVG	**84.7**	**76.2**	72.4	80.0
(1) 87 Rd RUL conventional gasoline, OPIS data for NYH, USGC, LA				
(2) Platt's Singapore 92 RON (87 Rd); Platt's USGC 87 Rd, less 1 cpg				

EVALUATION OF FACTORS:

LOCATION ADJUSTMENT (486H-13(d))

Location Adjustment (Freight)

- Intent is to incorporate the cost to move product from Baseline Sources into Oahu
- Fixed factor of 4 cpg is too low to reflect freight cost from either Legislated Sources (NYH, LA, USGC), or ICF recommended sources (Caribbean, Singapore)
- Freight market can vary over time and would need to be incorporated in any alternative gasoline sourcing strategy

Freight Cost to Hawaii from US, cpg

	USGC to LA (1)	Adjust to Hawaii (2)	Estimated Avg Cost to Honolulu from US	486-13 (d)
2000	10.00	0.50	10.50	4.00
2001	10.75	0.50	11.25	4.00
2002	9.00	0.40	9.40	4.00
2003	10.90	0.50	11.40	4.00
2004	13.30	0.60	**13.90**	**4.00**
(1) Estimated history from Marine Charter companies, Jones Act vessels, 30 MDWT				
(2) Adjusted based on incremental days travel at 14 knots from USGC, LA, NYH to Honolulu				

Freight Cost Assumptions to Hawaii, 30 MT Cargo

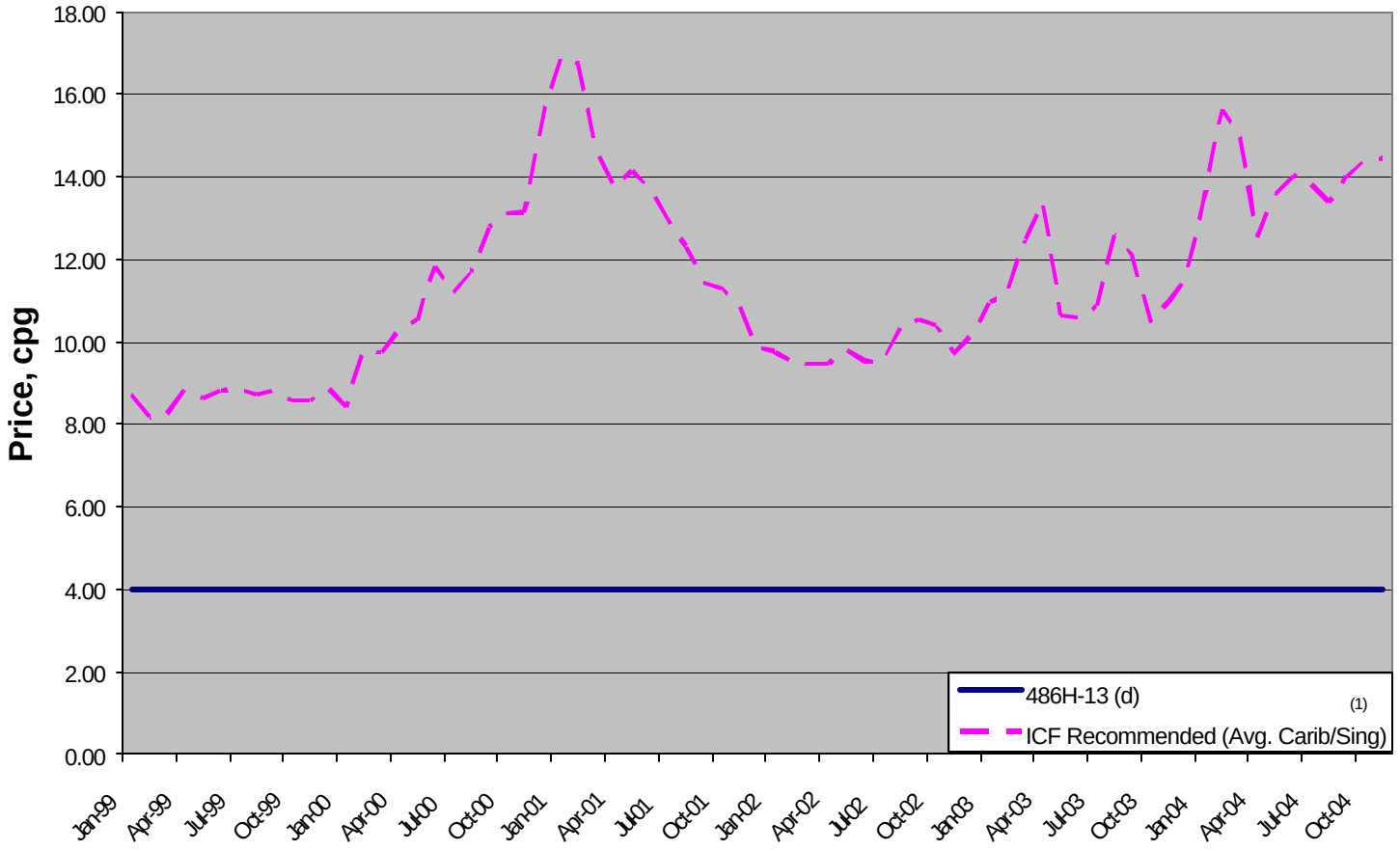
Components	Singapore	Caribbean
Vessel Charter	Market	Market
Canal Charges	N/A	2.15 cpg
Cargo Losses*	.5%	.5%
Insurance Costs*	.15%	.15%
Import Duties	1.25 cpg	1.25 cpg
Receipt Terminal	1.00 cpg	1.00 cpg

*Percentage of cargo value

Freight Cost Calculation to Hawaii, Example

Date: December, 2003	Singapore	Caribbean
Market Price for RUL Gasoline, cpg	91.50	84.64
Freight Quote to USWC (Platts), cpg	6.50	8.40
Estimated Charter Cost to Hawaii, cpg	5.20	10.10
Cargo Losses, .5%, cpg	.46	.42
Insurance, .15%, cpg	.14	.13
Canal Charges, cpg	N/A	2.15
Receipt Terminal, cpg	1.00	1.00
Import Duties, cpg	1.25	1.25
Total Freight, cpg	**8.05**	**15.05**

Location Adjustment (Freight) Comparison to Honolulu

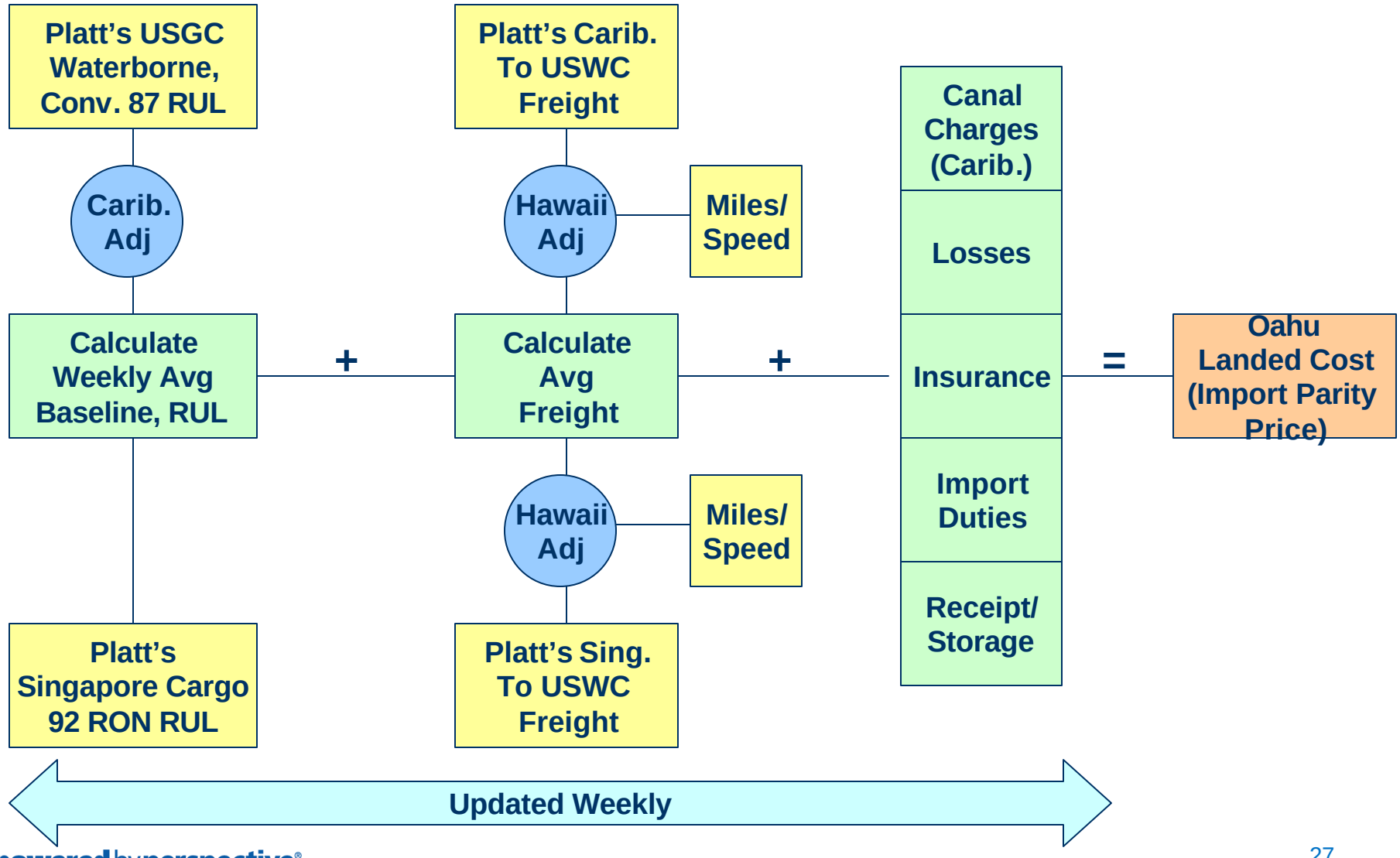


(1) Basis: Platt's freight quotes, 30 MT gasoline cargo, including import duty and other costs.

EVALUATION OF FACTORS:

IMPORT PARITY PRICE
(Baseline plus Location)

Import Parity Price Determination Process

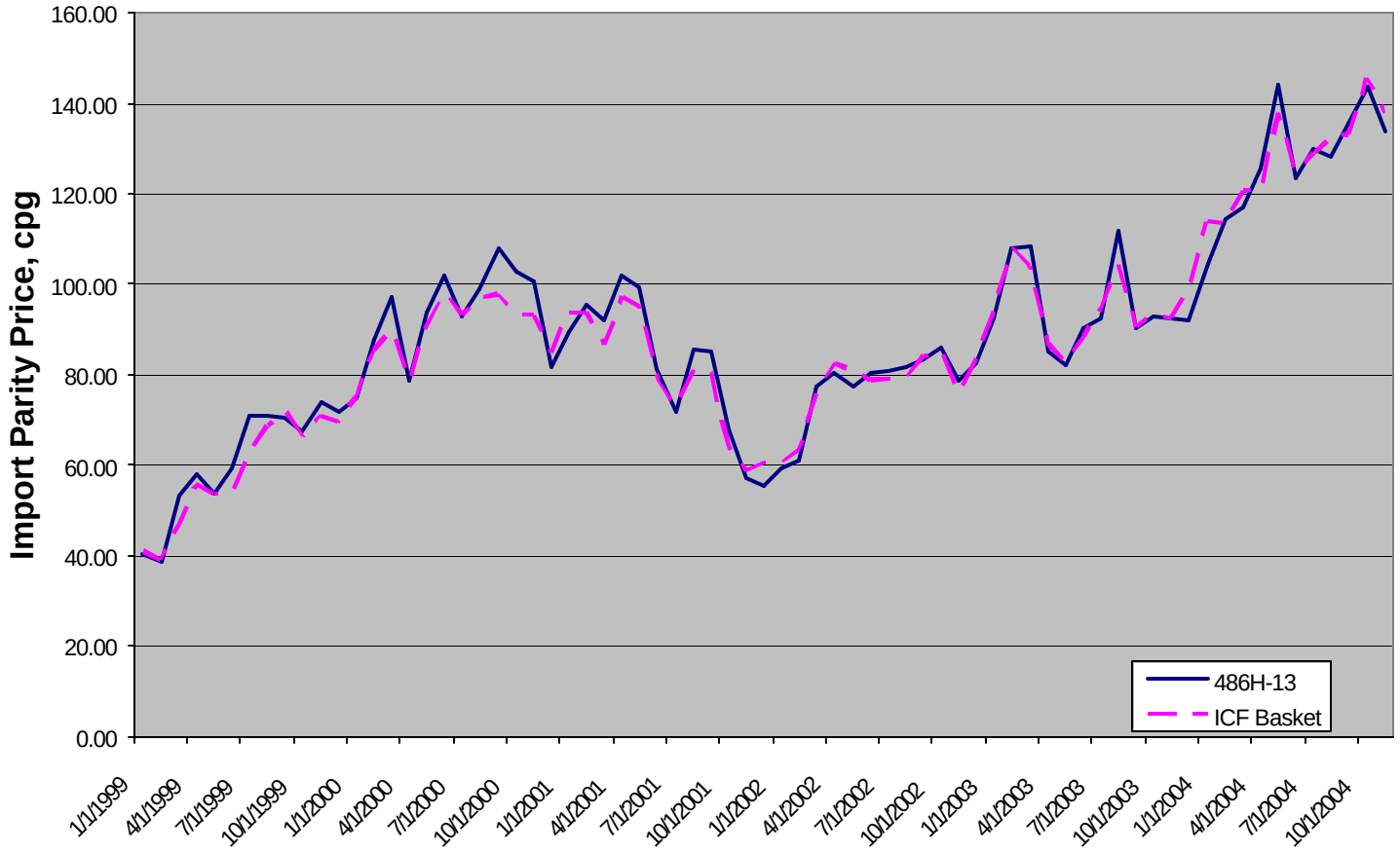


Average Import Parity Delivered Cost to Honolulu, cpg

Year	Proposed 486H Baseline Price plus Location Adjustment	Caribbean Baseline Price plus Est. Historical Freight	Singapore Baseline Price plus Est. Historical Freight	ICF Proposed Basket Price + Est. Historical Freight (Sing/Carib)
1999*	60.70	61.40	55.40	58.40
2000	93.20	95.40	84.30	89.80
2001	81.80	87.00	73.50	80.30
2002	77.40	82.50	72.50	77.50
2003	94.90	98.90	91.00	94.90
2004	127.30	134.00	122.20	128.10
Overall	**88.70**	92.60	82.60	**87.60**

*** -** Monthly data for the Caribbean, Singapore, and ICF Proposed Basket begins in Sept. 1999 and was extrapolated back to Jan.; 2004 through November.

Oahu Import Parity Price Comparison



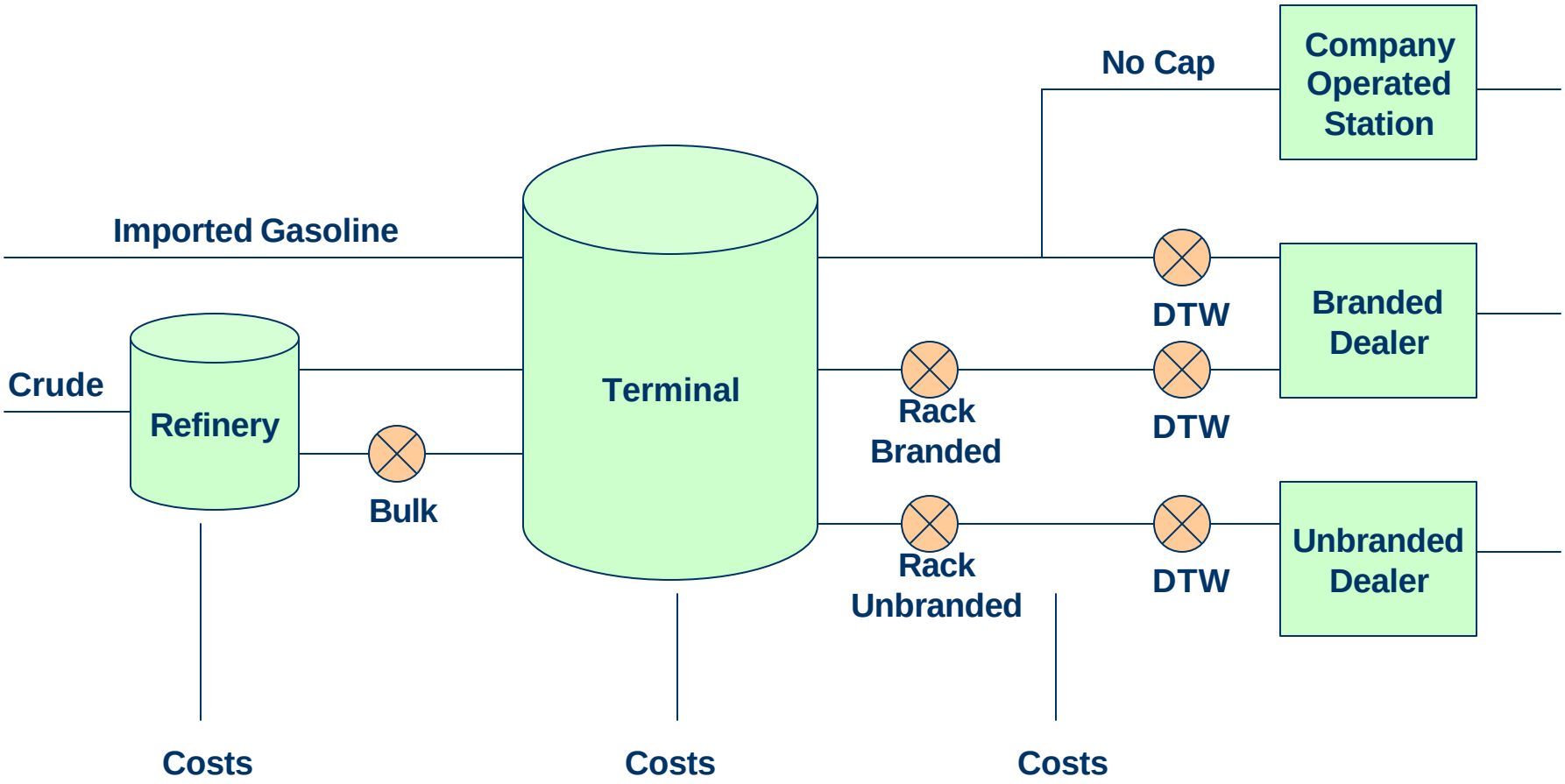
EVALUATION OF FACTORS:

MARKETING MARGIN
(486h-13(e))

Marketing Margin Issues

- Multiple Classes of Trade (Bulk, Rack, DTW)
- Branded and Unbranded Sales
- Multiple Wholesale transactions in a chain
- 486H-13(e) use of a fixed margin of 18 cpg insufficient to address multiple classes of trade

Wholesale Gasoline Marketing Control Points



Marketing Margin: Bulk Sales

- Sales made to other oil companies, distributors or jobbers in excess of truck load size
- Hawaii refiners sell about 32% of production on a bulk basis. Typical Hawaii Bulk sale basis is Import Parity as negotiated between Buyer & Seller.
- Buyers resell gasoline to dealers, distributors or jobbers, or market in company operated stations
- ICF recommends a Bulk sale cap of 1 cpg above import parity. Import Parity equivalent assures refiner a market based gasoline price

Marketing Margin: Rack Sales

- Branded: Supplier sells gasoline from a terminal truck rack to a Distributor or Jobber for resale to a Branded service station. Supply assurance and brand support.
- Unbranded: Supplier sells gasoline from a terminal truck rack to a Distributor or Jobber for resale into Unbranded service stations. No proprietary additives, supply assurance, or marketing support. Suppliers will price Unbranded over Branded in tight supply markets.

Marketing Margin Determination: Rack

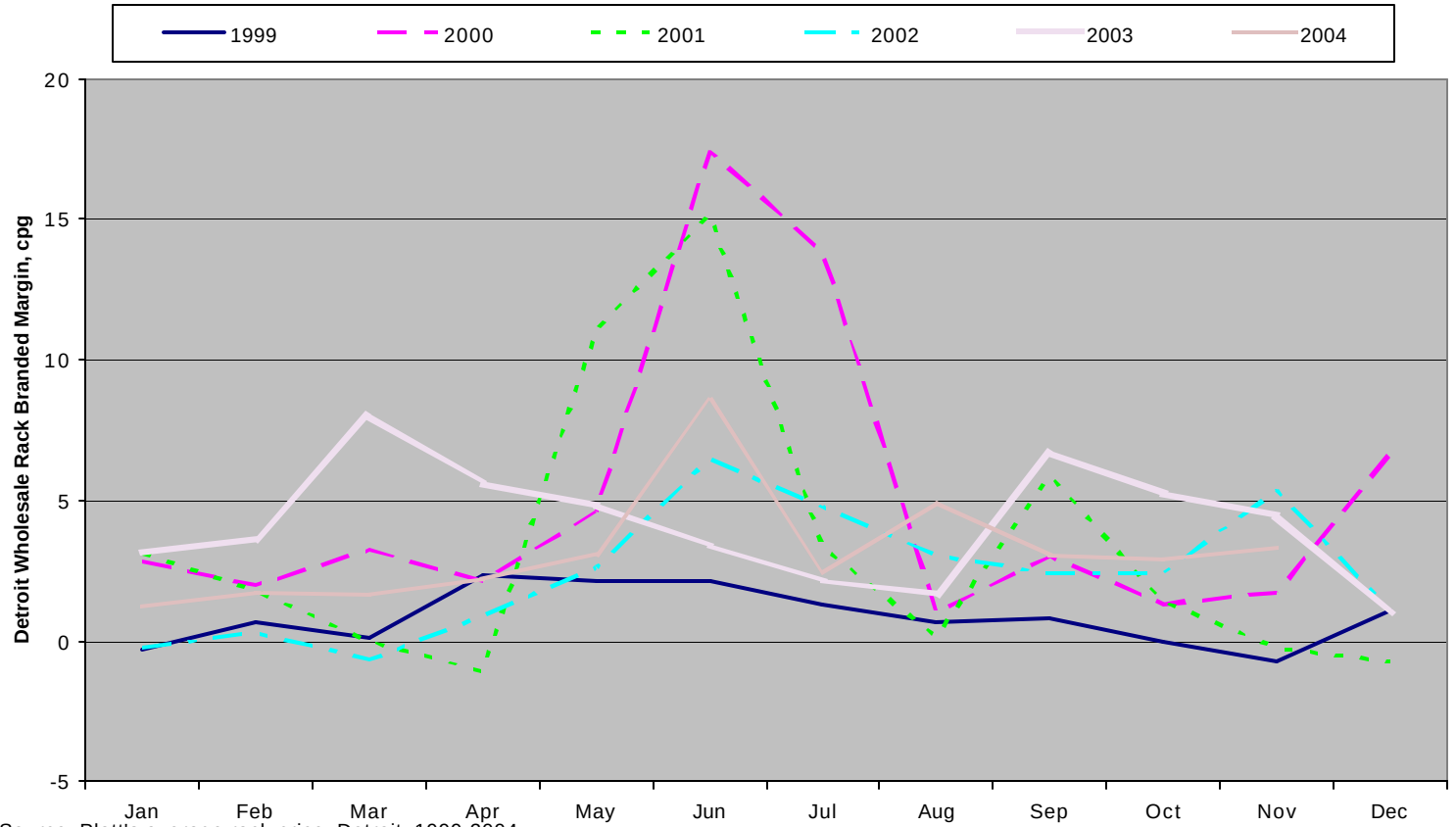
- Gross Margin equals Rack selling price less source cost of acquisition (spot market, import parity) less transportation to terminal Rack and terminal cost.
- Oahu Gross Margin = Oahu Rack price less Import Parity cost less transportation & terminal cost (2.2 CPG)
- Competitive Mainland Gross Margins = Terminal Rack price less spot market acquisition less transportation & terminal cost (Data Source: Platt's & OPIS)
- ICF evaluated Mainland Rack Gross Margins in eight locations to simulate a competitive market for Hawaii

Historical Wholesale RUL Rack Margins, US Mainland, cpg

US MAINLAND MARKETS									
	Albany	Atlanta	Dallas	Detroit	Portland, ME	Tampa	Seattle	Phoenix	Average
1999	0.68	2.39	0.82	0.86	2.26	-0.25	1.23	4.38	**1.55**
2000	2.27	4.76	2.01	4.98	3.57	1.08	7.03	3.75	**3.68**
2001	1.94	5.31	7.51	3.32	4.12	1.86	10.19	4.58	**4.85**
2002	1.58	5.11	3.88	2.37	2.18	0.32	6.72	6.03	**3.52**
2003	2.54	4.65	5.09	4.16	2.50	2.41	5.95	7.46	**4.34**
2004	1.82	6.39	2.34	3.19	3.12	3.01	2.97	3.99	**3.35**
Overall 1999-2004	1.80	4.77	3.61	3.14	2.96	1.40	5.68	5.03	**3.55**

Basis: Platt's average Rack pricing less spot market cost and transportation

Monthly Unleaded Rack Margin for Detroit



Source: Platt's average rack price, Detroit, 1999-2004
Platt's Chicago Pipeline RUL spot market + transportation & terminalling.

Estimated Oahu Unleaded Rack Margin vs. Average Mainland Rack Margin

Average	Estimated Oahu Rack Margin	Ave. Mainland Rack Margin	Est. Oahu Rack Margin minus Ave. Mainland Rack Margin
1999	13.89	1.55	12.34
2000	12.30	3.68	8.62
2001	33.44	4.85	28.58
2002	18.69	3.52	15.17
2003	23.48	4.34	19.13
2004	14.23	3.35	10.88
Ave. 1999-2004	19.41	3.55	15.86

Rack Marketing Margin Conclusions & Recommendations

- Oahu estimated historical Rack margins have been roughly 10-30 cpg above average Mainland margins
- Branded:
  - Margin Cap should be based on Mainland average, using peak month to provide pricing flexibility.
  - Peak month price roughly double year average
- Unbranded:
  - Margin Cap should be above Branded due to periodic need to price above Branded to control supply
  - Unbranded has had peak months averaging about 3 cpg above Branded.

Marketing Margin DTW Sales

- Supplier, Distributor or Jobber sell gasoline to Branded or Unbranded retail service station at a delivered price
- DTW (Dealer Tankwagon) price is normally higher than Rack prices due to delivery cost and dealer support costs

Marketing Margin Determination: DTW

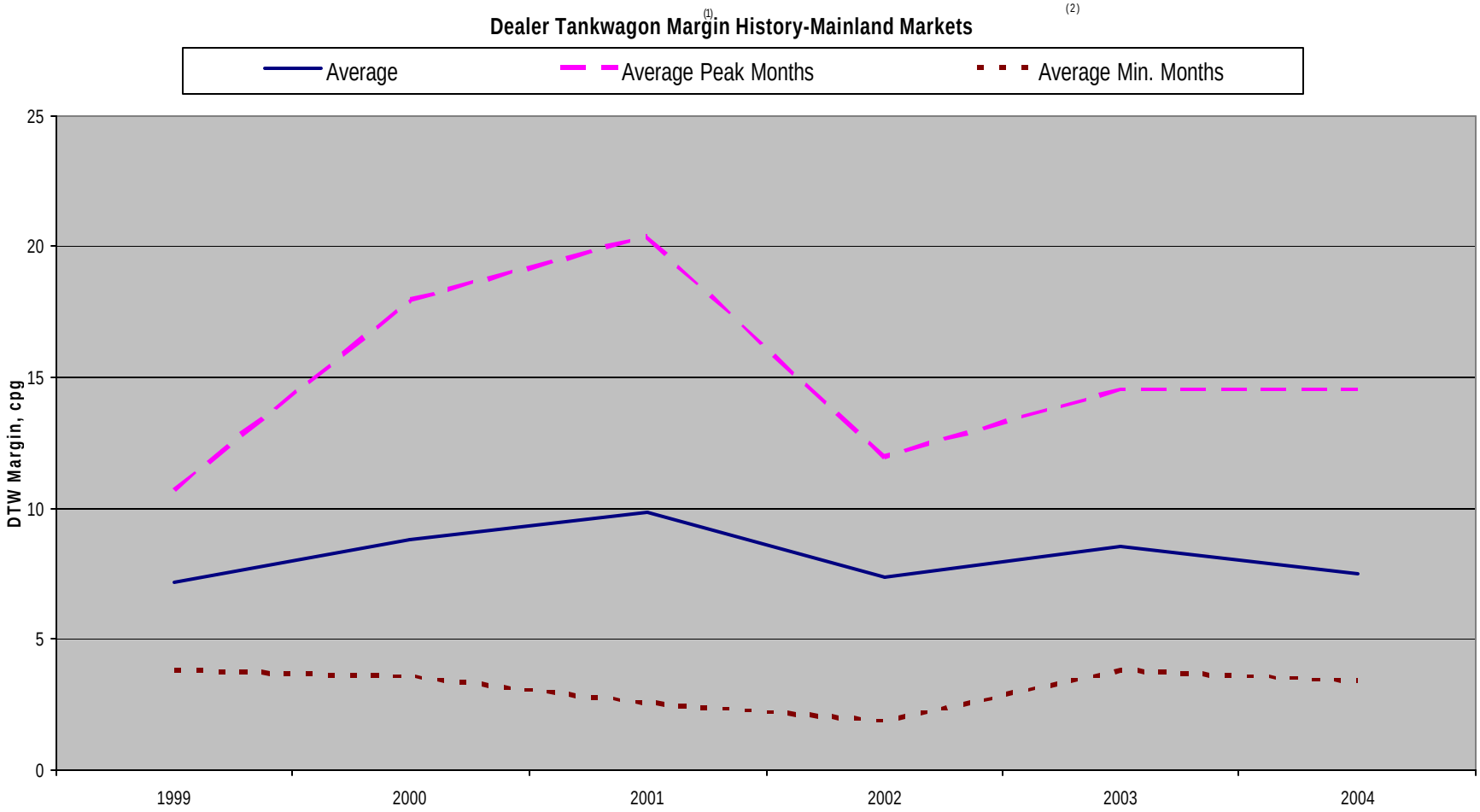
- Gross Margin equals DTW selling price less source cost of acquisition (spot market, import parity) plus transportation to terminal Rack and terminal cost.
- Oahu Gross Margin = Oahu DTW price less Import Parity cost less transportation & terminal cost (2.2 CPG)
- Competitive Mainland Gross Margins = DTW price less spot market acquisition less transportation & terminal cost (Data Source: EIA, Platt's, OPIS)
- ICF evaluated Mainland DTW Gross Margins in five states to simulate a competitive market for Hawaii

Historical Dealer Tankwagon (DTW) Unleaded Average Margins, cpg

	Florida	Georgia	Maine	Michigan	New York	AVG
1999	7.6	5.0	11.5	5.6	6.0	**7.2**
2000	7.0	7.2	13.2	8.9	7.8	**8.8**
2001	7.1	10.9	14.7	7.5	9.5	**9.8**
2002	4.6	7.0	10.9	6.2	8.1	**7.4**
2003	5.0	6.7	11.8	7.9	11.1	**8.5**
2004	4.0	6.7	11.0	7.0	8.9	**7.5**

Source: EIA State average DTW prices; Platt's spot market gasoline plus pipeline or marine transportation estimate to state.

Dealer Tankwagon Unleaded Margin History-Mainland Markets



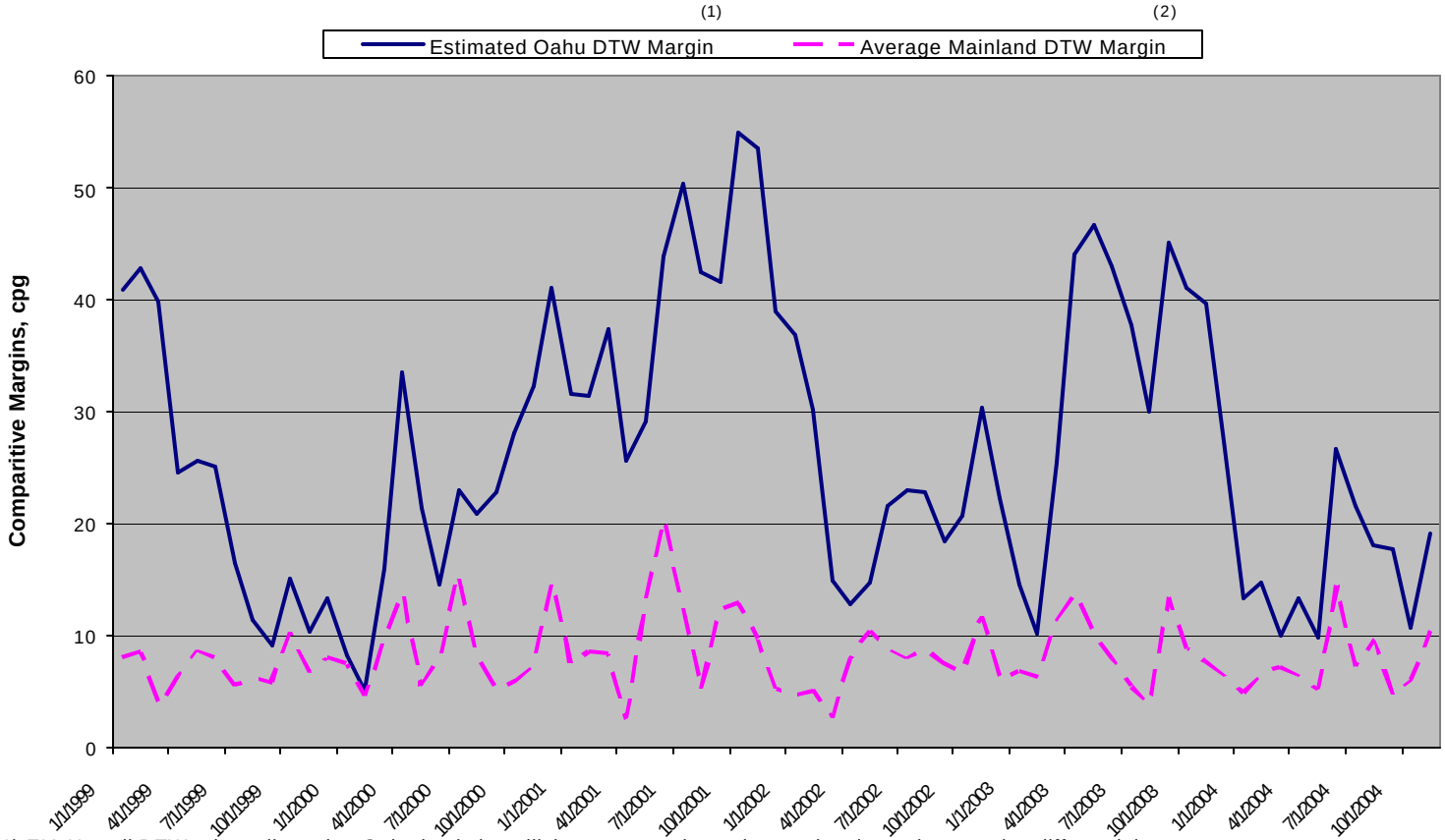
(1) Average DTW price less source (spot) market plus estimated transportation.

(2) Data from EIA for NY, Georgia, Michigan, Maine, Florida conventional gasoline.

Estimated Oahu Unleaded DTW Margin vs. Average Mainland DTW Margin

Average	Estimated Oahu DTW Margin	Ave. Mainland DTW Margin	Estimated Oahu DTW Margin minus Ave. Mainland DTW Margin
1999	22.86	7.16	15.70
2000	22.23	8.80	13.43
2001	40.05	9.85	30.20
2002	22.41	7.35	15.06
2003	33.73	8.51	25.22
2004	15.89	7.51	8.38
Ave. 1999-2004	26.34	8.20	18.13

Estimated Oahu Unleaded DTW Margin vs. Average Mainland DTW Margin

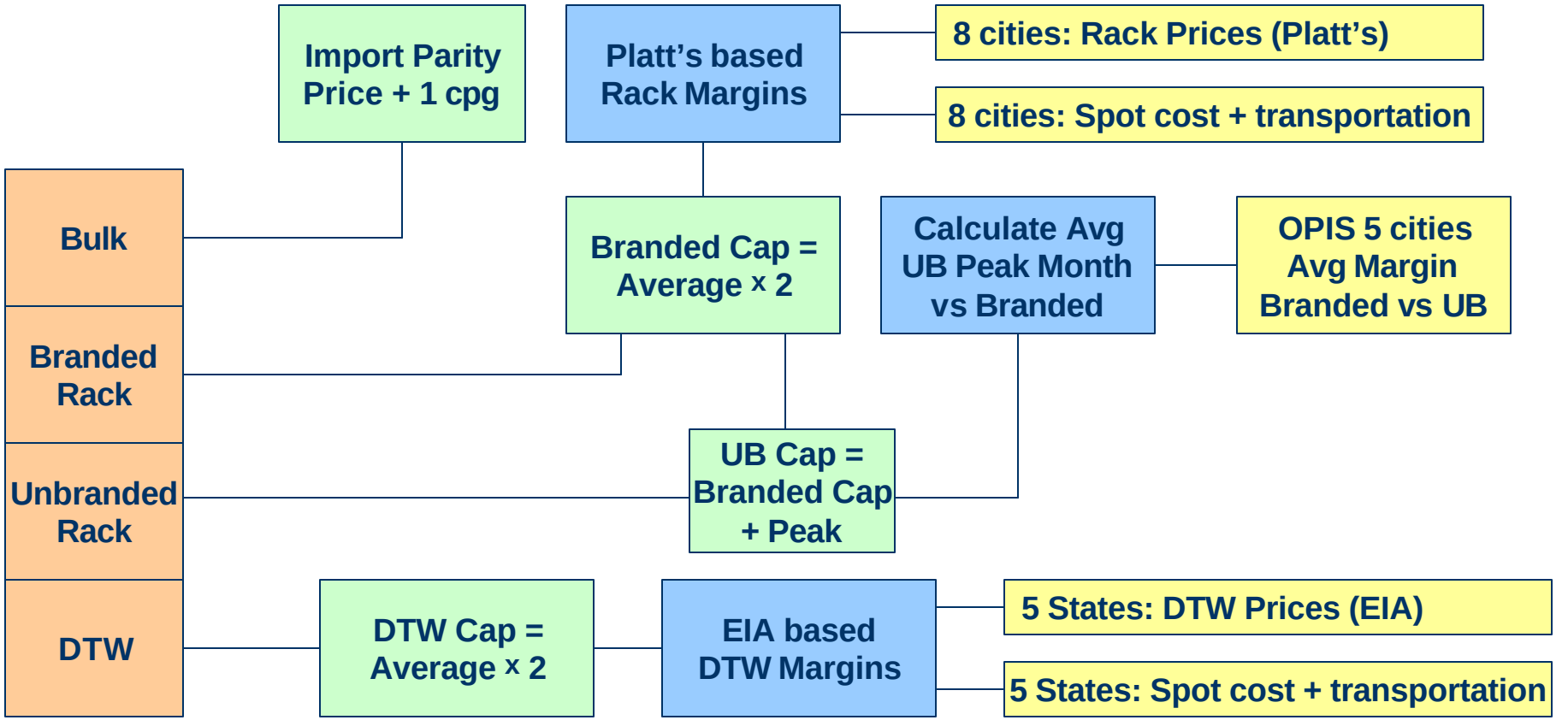


(1) EIA Hawaii DTW price adjusted to Oahu basis by utilizing county volume data and estimated zone price differentials.
(2) Average of 5 states EIA DTW price less spot market plus estimated transportation.

DTW Marketing Margin Conclusions & Recommendations:

- Oahu estimated historical DTW margins have been roughly 10-30 cpg above average Mainland margins
- Hawaii DTW margin is volatile because import parity price changes often, and pricing history shows extended periods with no change in Oahu DTW price
- Margin Cap should be based on Mainland average, using peak month to provide pricing flexibility.
  - Peak month price roughly double year average

Marketing Margin Cap Determination Process



Updated Annually

Marketing Margin Recommendation for 2005

- Bulk 1.0 CPG
- Rack Branded 6.7 CPG
- Rack Unbranded 9.7 CPG
- DTW (All) 15.0 CPG

Note: Margin caps are applied to Import Parity price, and are not additive

- 486H-13(e) 18.0 CPG

EVALUATION OF FACTORS:

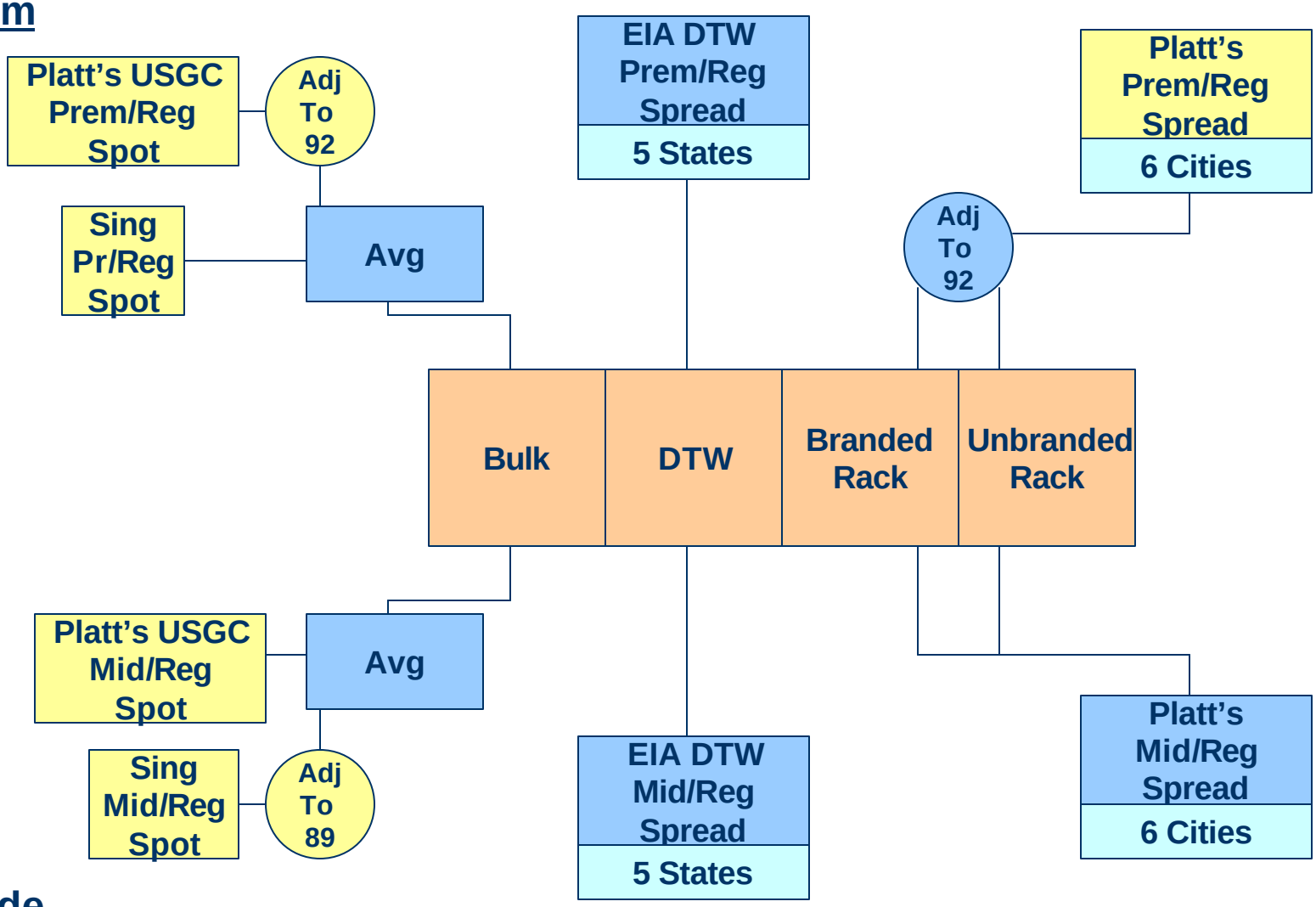
Premium & Midgrade Margins (486H-13 (f) and (g))

Premium & Midgrade Margins: Issues & Methodology

- Market prices for Premium and Midgrade differ depending on the class of trade (DTW, Rack, Bulk)
- Price differentials vs Regular Unleaded are more consistent than Unleaded marketing margins
- ICF evaluated Bulk margins (Singapore & USGC), Rack margins (US Mainland cities), and DTW margins (US Mainland States- EIA data)

Premium & Midgrade Margin Determination Process

Premium



Midgrade

Premium and Midgrade Bulk Margins, cpg

Date	Premium [1]	Midgrade
1999	3.5	1.5
2000	4.6	2.2
2001	5.7	2.8
2002	4.6	1.9
2003	4.7	1.9
2004	6.2	2.0
Average	4.9	2.1

Source: Platt's Average spot market price for USGC 92 Premium and Singapore Premium

[1] Premium adjusted to 92 Rd vs. 93 Rd in Platt's quote.

Premium and Midgrade Rack Margins, cpg

Date	Premium [1]	Midgrade
1999	6.3	2.9
2000	7.0	3.5
2001	7.8	3.6
2002	7.6	3.3
2003	8.1	3.5
2004	9.2	4.2
Average	7.7	3.5

Source: Platt's Rack Price averages for 6 cities (Albany, Atlanta, Dallas, Detroit, Portland (ME), and Tampa)

[1] Premium adjusted to 92 Rd vs. 93 Rd in Platt's quote.

Premium and Midgrade DTW Margins, cpg

Date	Premium [1]	Midgrade
1999	10.2	6.6
2000	9.8	6.5
2001	10.2	6.6
2002	10.0	6.3
2003	9.9	6.5
2004	10.1	6.4
Average	10.0	6.5

Source: Platt's Rack Price averages for 6 states (Florida, Georgia, Maine, Michigan, and New York)

[1] Premium adjusted to 92 Rd vs. 93 Rd in Platt's quote.

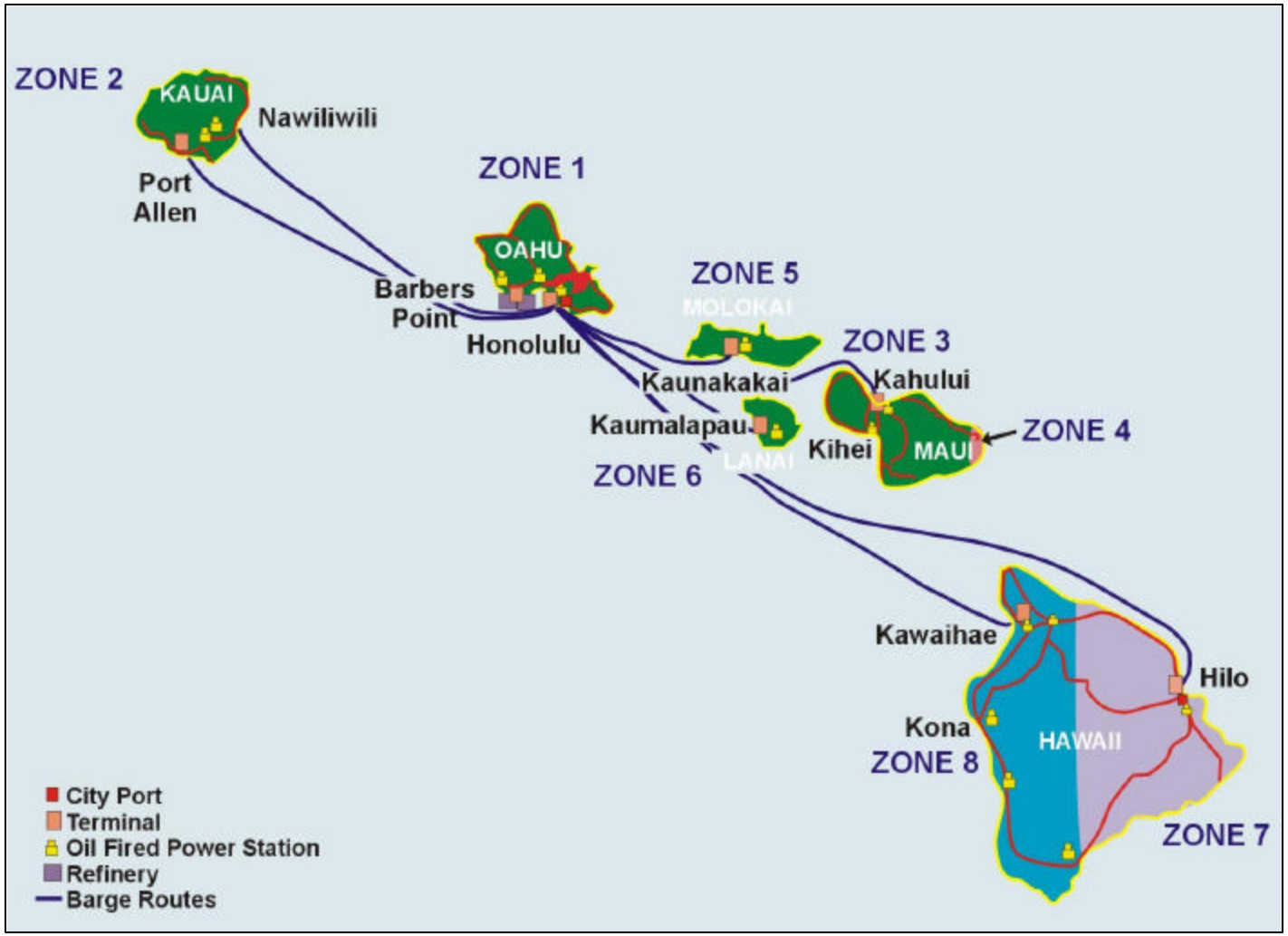
Overall Marketing Margin Recommendations: 2005 Price Adjustment vs. Baseline Import Parity, CPG

	UNLEADED	PREMIUM	MIDGRADE
DTW	15.0	UNLD + 10.0	UNLD + 6.5
Rack, Branded	6.7	UNLD + 9.0	UNLD + 4.2
Rack, Unbranded	9.7	UNLD + 9.0	UNLD + 4.2
Bulk	1.0	UNLD + 6.0	UNLD + 2.0
486H-13 Factors	18.0	UNLD + 9.0	UNLD + 5.0

EVALUATION OF FACTORS:

Zone Adjustments (486h-13(f),(g))

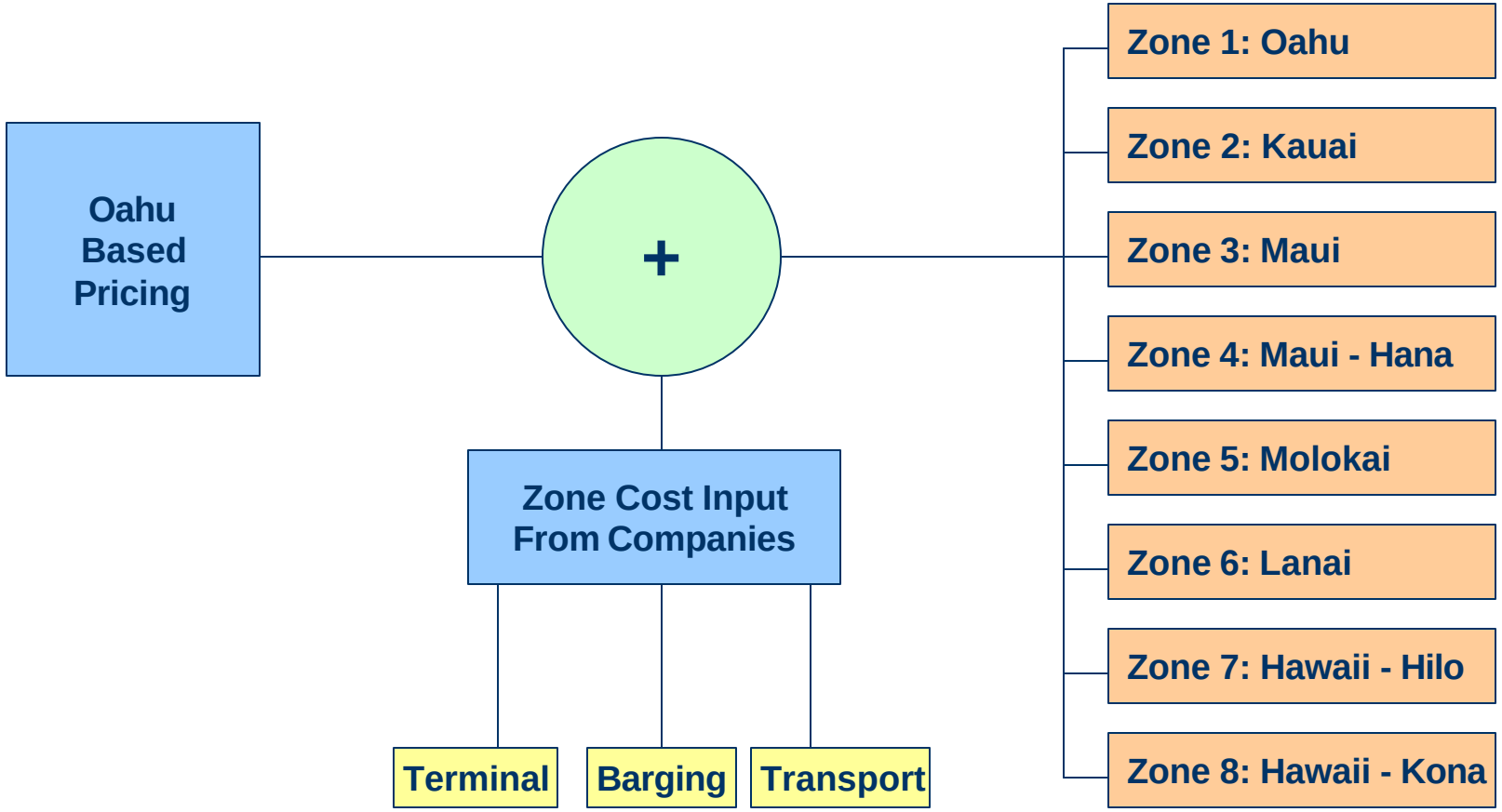
Hawaii Gas Cap Zones



* Note that Hawaii County Zones do not represent actual District boundaries

Zone Cost Adjustment Process

Objective: Identify cost to position product from Oahu to defined zones for customer transfer.



Hawaii Zone Adjustments, cpg

Hawaii Zone Adjustments, cpg				
Freight and Terminaling (1)				
	Barge	**Terminal Costs (2)**	**Truck Costs**	**Total Adjustment**
Zone 1: Oahu	0.0	2.2	Base	2.2
Zone 2: Kauai	4.3	5.6	1.5	11.4
Zone 3: Maui (Kahului)	4.2	5.5	0.1	9.8
Zone 4: Maui (Hana)	*	*	*	28.4
Zone 5: Molokai	*	*	*	31.2
Zone 6: Lanai	*	*	*	40.3
Zone 7: Hawaii (Hilo)	6.2	4.9	2.1	13.2
Zone 8: Hawaii (Kona)	6	5.4	4.6	16.0

(1) Barging costs (including demurrage, losses, inspection fees), trucking costs, and terminaling charges based on average of company responses; truck costs for Oahu are covered by DTW margins; incremental trucking cost in other zones above Oahu cost are additive to the zone adjustment.

(2) Terminal costs include Oahu terminal cost, as all volume moves through Oahu terminals to load onto neighbor island barges.

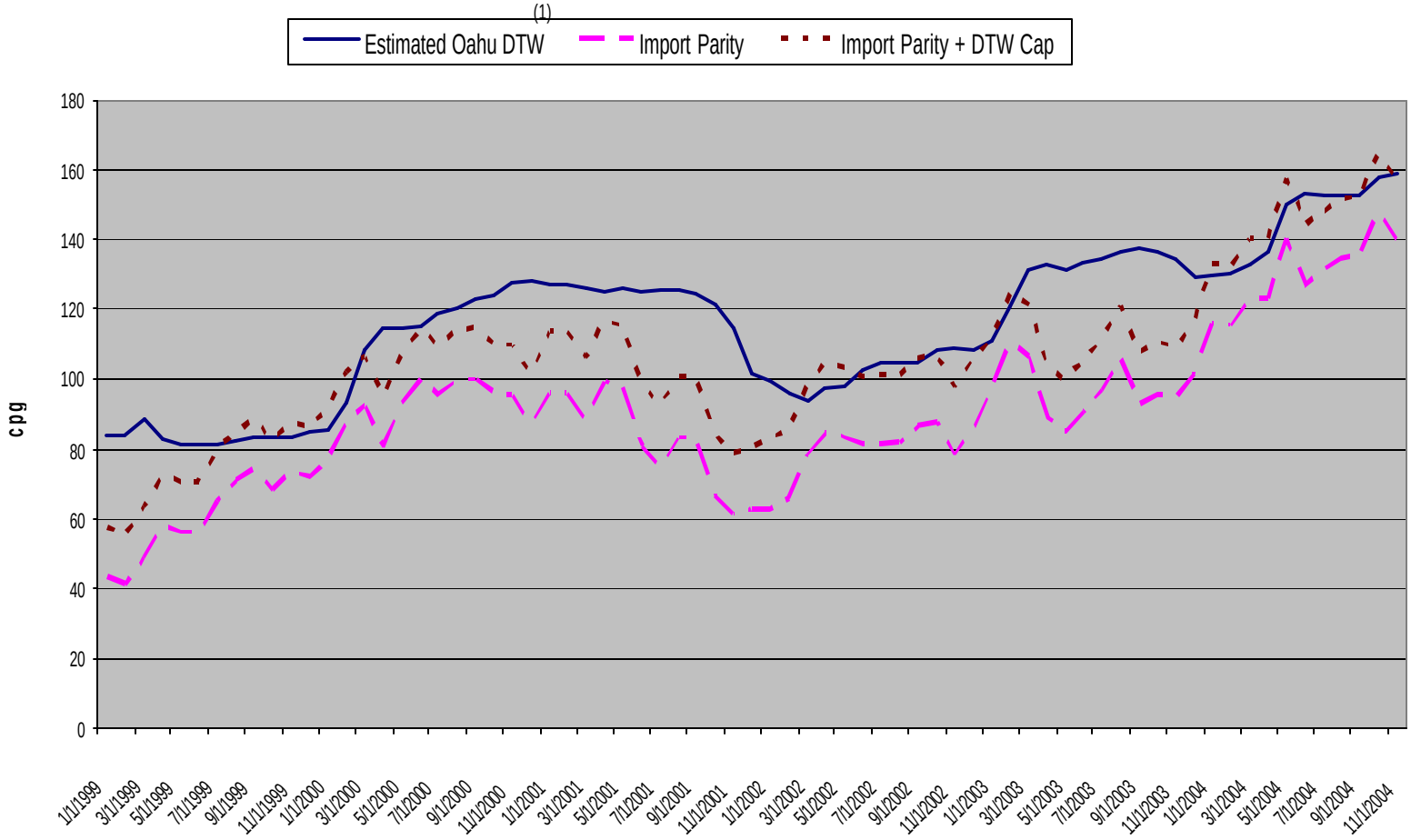
* Data not disclosed due to the need to shield confidential business information

Summary Table with ICF Recommended Adjustment Factors For 2005

	Class of Trade			
	DTW (All)	Rack Branded	Rack Unbranded	Bulk
Market Adjustment				
Marketing Margin	15.0	6.7	9.7	1.0
Premium Factor	10.0	9.0	9.0	6.0
Midgrade Factor	6.5	4.2	4.2	2.0
Zone Adjustment				
Oahu	2.2	2.2	2.2	2.2
Kauai	11.4	9.9	9.9	9.9
Maui	9.8	9.7	9.7	9.7
Maui-Hana	28.4	N/A	N/A	N/A
Molokai	31.2	N/A	N/A	N/A
Lanai	40.3	N/A	N/A	N/A
Hawaii-Hilo	13.2	11.1	11.1	11.1
Hawaii-Kona	16	11.4	11.4	11.4
N/A: Class of trade not provided in the zone.				

IMPACT ANALYSIS

Oahu Unleaded DTW Gas Cap Impact, cpg

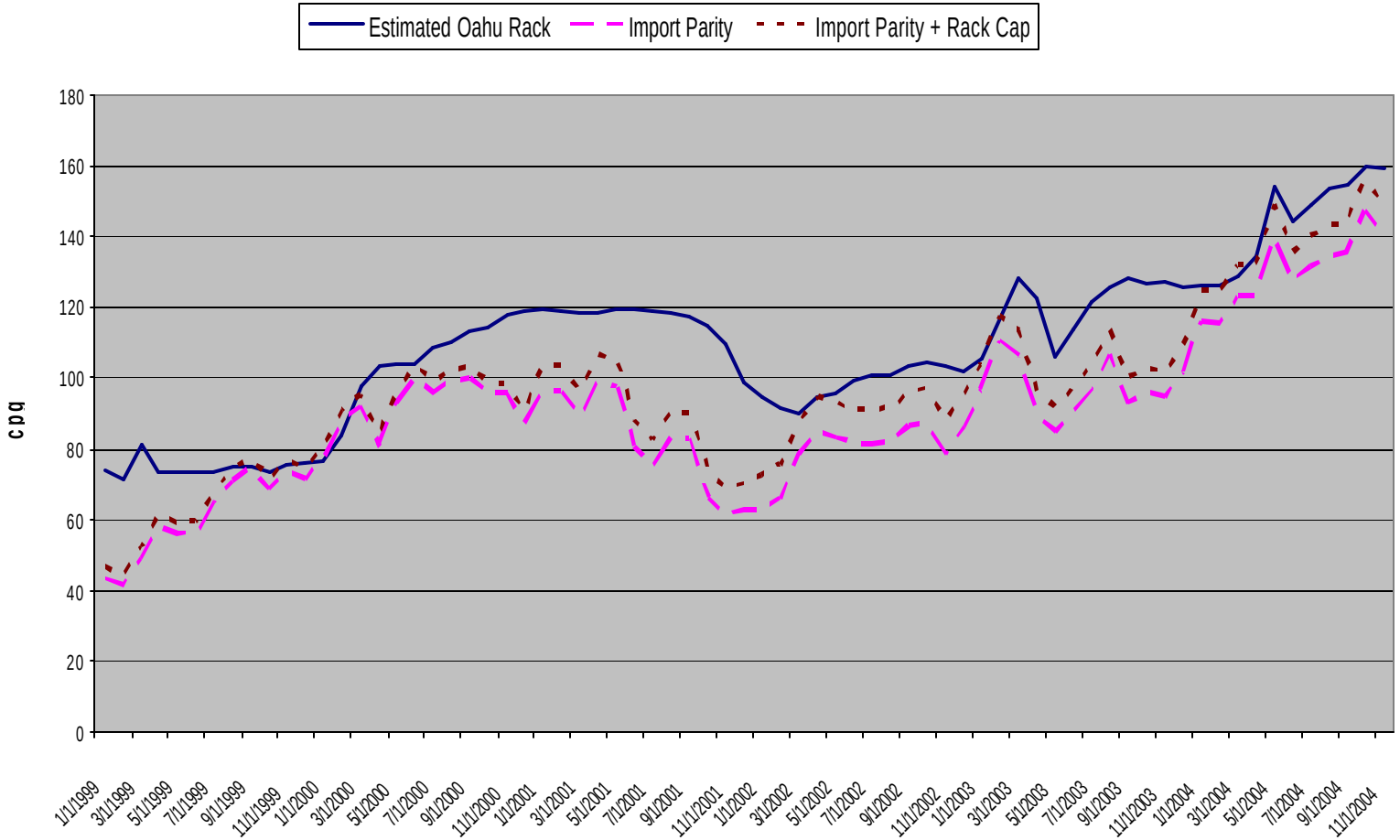


(1) EIA Hawaii DTW price adjusted to Oahu basis by utilizing county volume data and estimated zone price differentials.

Oahu Historical Unleaded DTW Price vs. ICF Recommended Price Cap, CPG

	DTW (1)	Import Parity (2)	DTW Cap	Import Parity + DTW Cap	Cap Impact
1999	83.44	60.59	14.30	74.89	**(8.56)**
2000	114.27	92.05	14.30	106.35	**(7.93)**
2001	122.50	82.45	17.60	100.05	**(22.45)**
2002	102.14	79.73	19.70	99.43	**(2.71)**
2003	130.87	97.14	14.70	111.84	**(19.03)**
2004	146.19	130.30	17.00	147.30	**1.11**
(1) EIA Hawaii DTW price adjusted based on Company data and Zone gasoline sales (DBEDT)				**Ave. Impact**	**(9.93)**
(2) 2.2 cpg terminal fees added for Oahu zone					
1999 cap same as 2000 cap due to lack of 1998 data					

Oahu Unleaded Rack Gas Cap Impact, cpg



Oahu Historical Unleaded Rack Price vs. ICF Recommended Price Cap, CPG

	Rack (1)	Import Parity (2)	Rack Cap	Import Parity + Rack Cap	Cap Impact
1999	74.47	60.59	3.10	63.69	**(10.79)**
2000	104.35	92.05	3.10	95.15	**(9.2)**
2001	115.89	82.45	7.40	89.85	**(26.04)**
2002	98.42	79.73	9.70	89.43	**(8.99)**
2003	120.62	97.14	7.00	104.14	**(16.48)**
2004	144.53	130.30	8.70	139.00	**(5.53)**
(1) EIA Hawaii Rack adjusted based on Company data and Zone gasoline sales (DBEDT).				**Ave. Impact**	**(12.84)**
(2) 2.2 cpg terminal fees added for Oahu zone					
1999 cap same as 2000 cap due to lack of 1998 data					

Premium and Midgrade Margin Cap Impact

August, 2004		
DTW, cpg	**Premium**	**Midgrade**
Actual Margins (1)	11-14	5-6
Recommended Cap	10	6.5
Impact	(1-4)	0-1
Rack, cpg		
Actual Margins (1)	11-13	4-6
Recommended Cap	9	4.2
Impact	(2-4)	(0-2)
Bulk, cpg		
Actual Margins (1)	5-7	-----
Recommended Cap	6	2
Impact	NA	NA
(1) Actual margins based on company response data.		

Estimated Gas Cap Impact in Zones August 2004, cpg

DTW	RUL, cpg				
	Zone 1: Oahu	**Zone 2: Kauai**	**Zone 3: Maui (Kahului)**	**Zone 7: Hawaii (Hilo)**	**Zone 8: Hawaii (Kona)**
Estimated DTW	154.60	175.00	173.00	167.70	171.40
Gas Cap, DTW	149.44	158.64	157.04	160.44	163.24
Impact	**(5.16)**	**(16.36)**	**(15.96)**	**(7.26)**	**(8.16)**
Rack	RUL, cpg				
	Zone 1: Oahu	**Zone 2: Kauai**	**Zone 3: Maui (Kahului)**	**Zone 7: Hawaii (Hilo)**	**Zone 8: Hawaii (Kona)**
Estimated Rack	150.50	157.50	161.00	157.50	163.50
Gas Cap, Branded	141.14	150.34	148.74	152.14	154.94
Impact	**(9.36)**	**(7.16)**	**(12.26)**	**(5.36)**	**(8.56)**

Impact Analysis: Refining

- Refining profitability typically measured against spot market, or import parity
- Recommended import parity determination is reasonably close to import parity or spot market valuations typically used by refiners.
- Overall impact may be minimal if profitability valued at import parity
- Gas Cap and Ethanol legislation may directionally impact profitability, investment plans, and operation

Impact Analysis: Wholesale Marketing

- Greatest impact of Gas Caps will be on Marketers who buy at import parity and resell on a Rack or DTW basis
- Imposing a Gas Cap based on Mainland margins will reduce gross income (sale revenue less purchase cost) and elevate focus on cost management
- Should result in more frequent and market based changes in Wholesale prices
- Marketers who buy at rack prices and resell on a delivered basis will be impacted by having a limited margin (ie DTW price less Rack purchase price)

Impact Analysis: Other Marketing

- Ethanol legislation will impact profitability if likely higher distribution costs are not recognized in Gas Cap formula
- Retail marketing is not capped, hence consumer impact may or may not reflect wholesale price changes

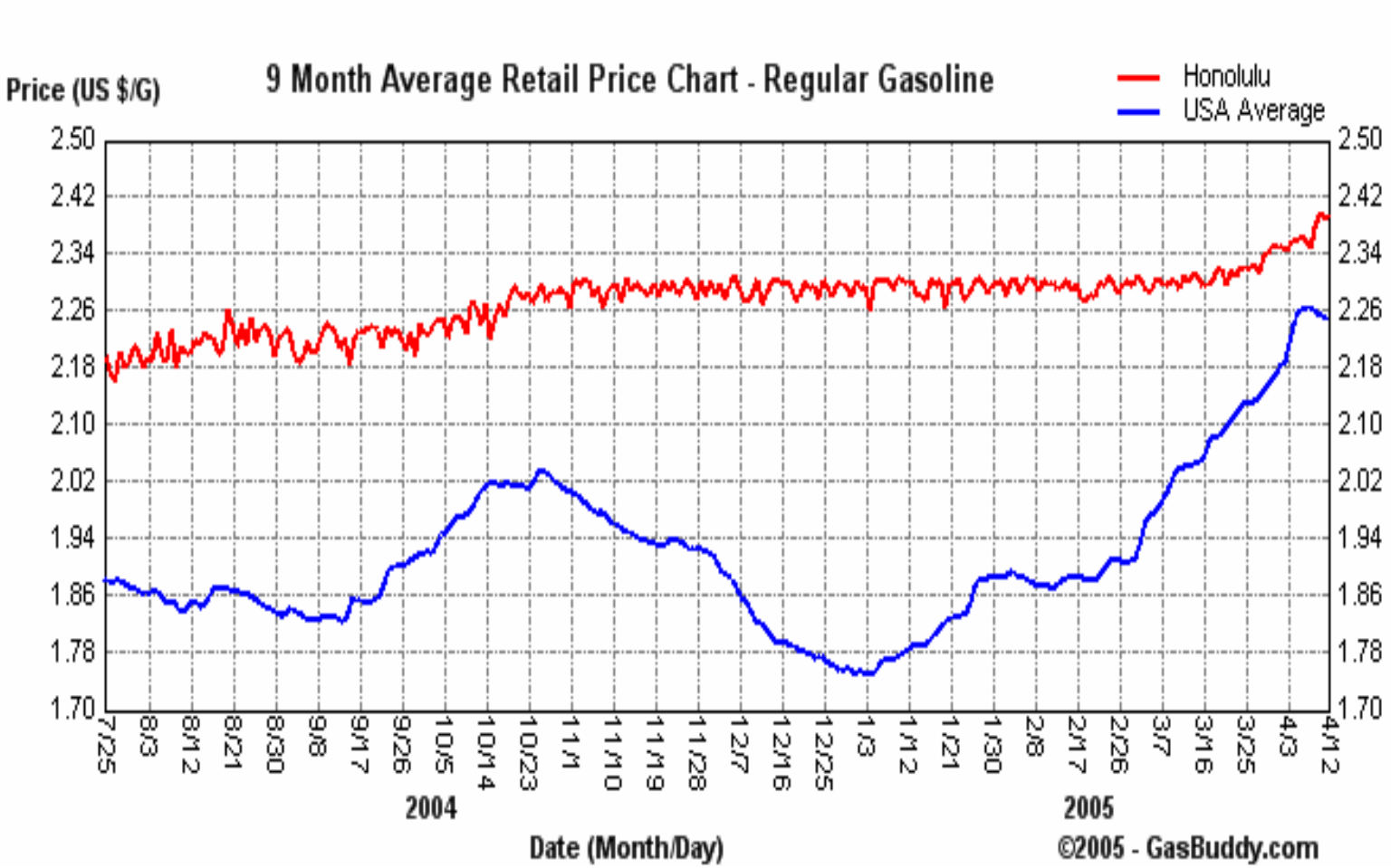
Summary Conclusions: What You Should Expect

- More frequent price changes at the Wholesale level, which may cascade to the street/retail level (though no guarantee)
- Wholesale prices impacted by conditions outside of Hawaii
- Efforts to reduce cost in the gasoline supply chain
  - Manpower reductions/efficiency improvements
  - Pushback on overheads & corporate charges
- Asset evaluations and possible sales
- Potential supply impacts

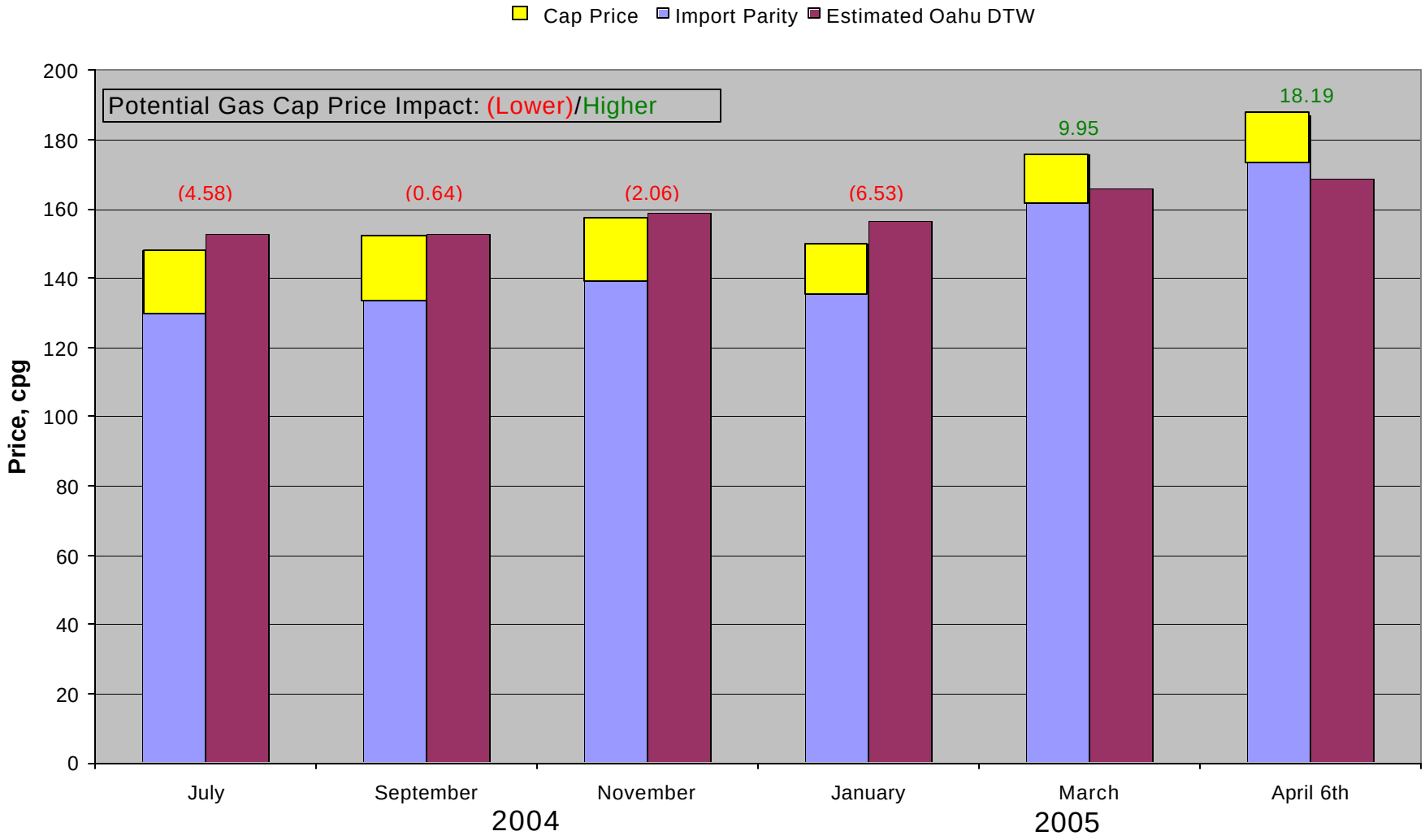
Impact Analysis: Current Situation

- Global gasoline prices increasing in the last 6 weeks; Hawaii has been relatively stable (next slide)
- If Retail dealer margins are stable, Refiner/Marketers are currently being squeezed on margin
- Gas Cap calculation would allow roughly 20 cpg higher wholesale prices

Recent Price History: Hawaii Retail vs US Average

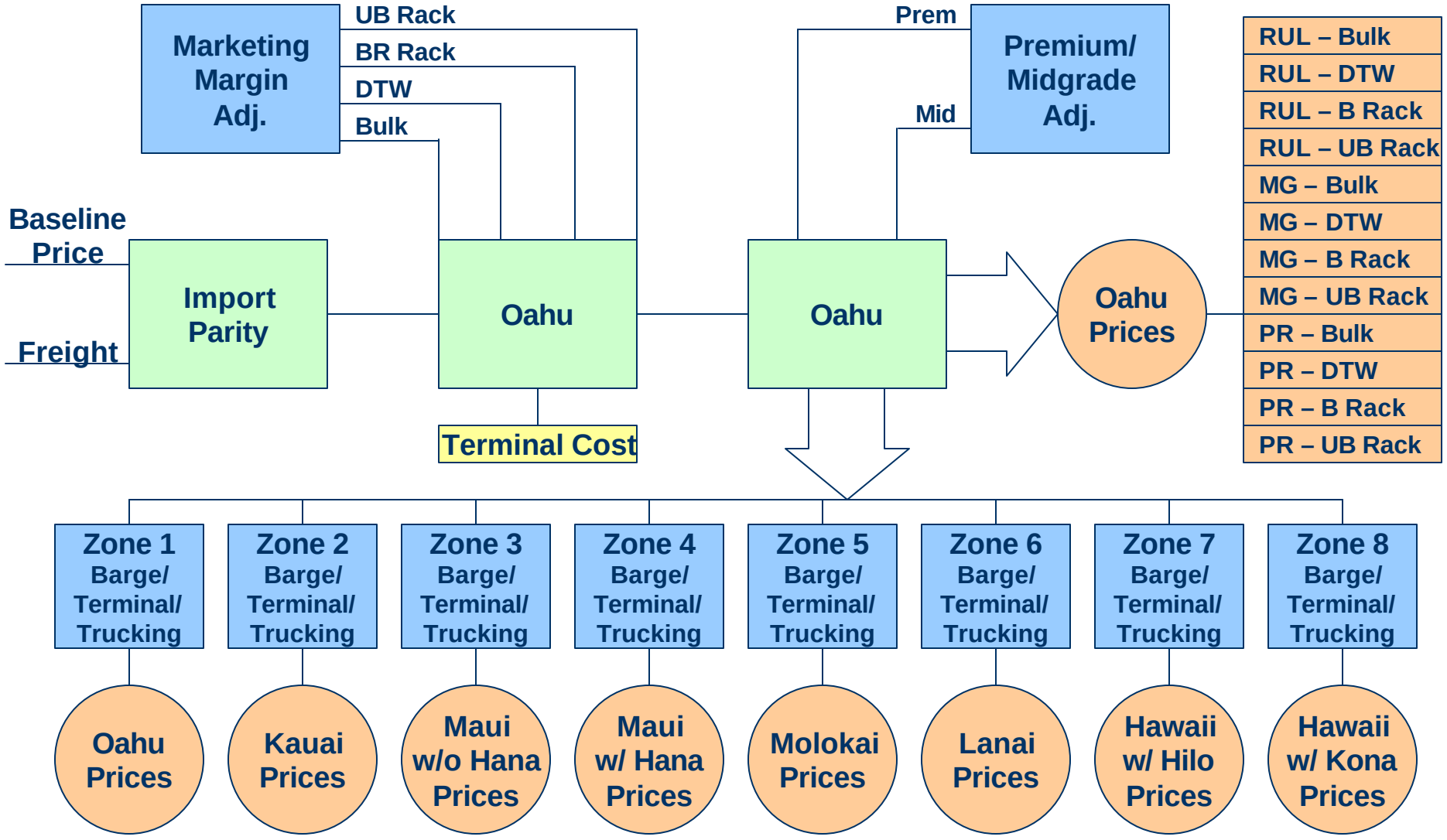


Comparison of Import Parity and Price Cap vs. Estimated Oahu DTW

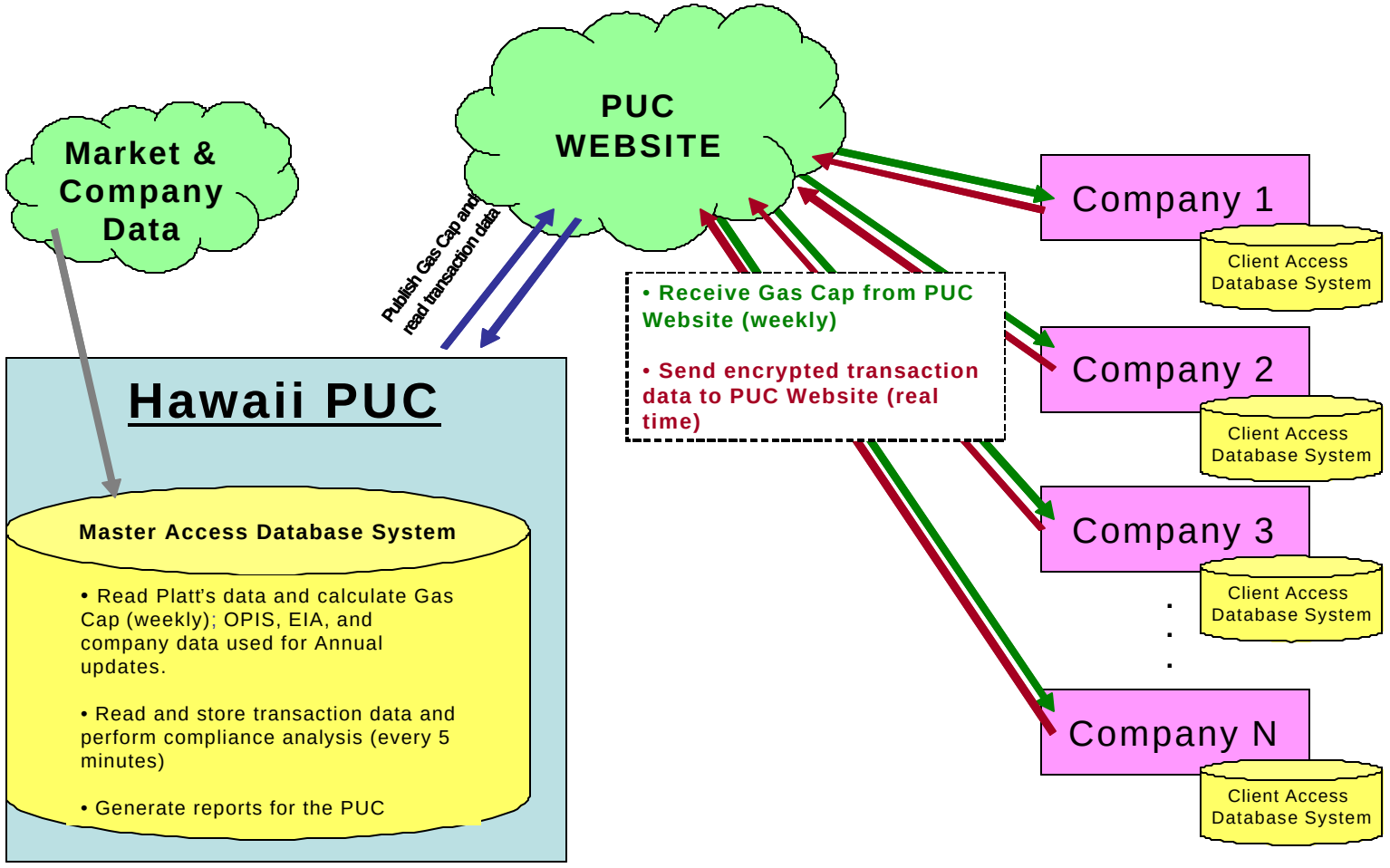


COMPLIANCE SYSTEM

Overall Hawaii Gas Cap Price Determination Process



PUC Reporting System



Gas Cap Compliance System: Company Reporting Requirements

- Data must be entered on every wholesale transaction
- Key data to enter include:
- Data entered on Company Access database & sent to PUC website

Buyer & Seller	Zone
Grade	Price (before tax)
Class of Trade	Date
Volume	Delivery Method